The Churchill Corporation Annual Report 1994

Churchill

"Churchill is undergoing a fundamental strategic shift which will change our multi-business management organization into a well-focused and diversified construction corporation."

Strategic Direction

Churchill's long term strategic plan is to change from a real estate based conglomerate to a diversified construction corporation. To this end, the Corporation has divested itself of unprofitable companies, improved the profitability of its core construction businesses, and revamped its capital structure. In 1994, having returned to profitability and improved the balance sheet, Churchill is now embarking on the expansionary phase of its plan. Within five years, the Corporation expects to enjoy a significant presence in the commercial and industrial construction business in North America.

Corporate Profile

The Churchill Corporation is a public company, listed on the Alberta Stock Exchange (CUQ). The Corporation has 283 registered shareholders of 17,731,920 Class A common shares and 2 registered holders of 6,752,144 preferred shares. Both common and preferred shares having voting status.

The Corporation's head office is in Edmonton and subsidiaries have offices located in Edmonton, Calgary, Vancouver, Regina, and Fort McMurray. The Corporation has an eight member Board of Directors, an Executive Committee and standing committees for Audit, Human Resources and Real Estate.

Subsidiaries

Churchill Resource Investments Inc.	100%
Insulation Holdings Inc.	80%
Stuart Olson Construction Ltd.	100%
Triton Projects Limited Partnership	80%

Affiliates

Lafrentz Road Services Ltd.	41%
Russell Technologies Inc.	47%
Shippers Supply Inc.	35%

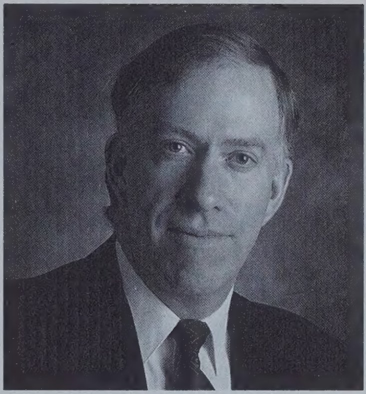
Report to Shareholders

The Churchill Corporation has concluded a watershed year. A return to profitability was achieved and a significant restructuring of the Corporation's capital was successfully completed.

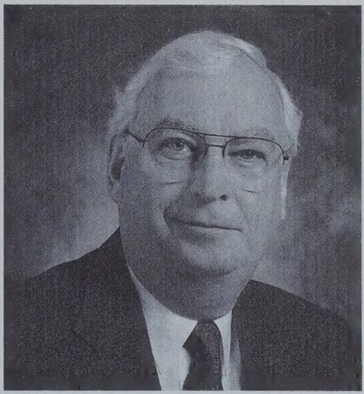
The Corporation finished 1994 with two consecutive profitable quarters, resulting in Net Earnings of $227,000 for the year. On a basic and fully diluted basis this represents a profit of $0.01 per common share. This compares to a 1993 net loss of $5.3 million, with a loss per common share of $0.67. The last profitable year for Churchill had been 1991, while the earnings per common share are positive for the first time since 1988.

Consolidated revenues in 1994 were $146 million, a 25% decrease from the $195 million achieved in 1993. The lower revenues result from the following factors: a substantial reduction in available work in the Alberta construction market; a strategic concentration on smaller, higher margin projects; and a corporate emphasis on profits ahead of revenues.

In keeping with Churchill's program to reduce debt, $5.3 million in cash was generated through the sale of surplus assets and the redemption of preferred shares by an affiliate. This has strengthened the balance sheet by reducing interest bearing debt $3.4 million and improving liquidity through



H.R. (Hank) Reid, President and C.E.O.



S. K. Hooper, Chairman

a $1.8 million cash increase. Consequently, profitability improved due to an 18% reduction in the costs of carrying the debt. The initiatives taken

"...the earnings per common share are positive for the first time since 1988."

in 1993 to improve efficiency are also showing positive returns with a 25% reduction in overheads.

Churchill's construction operations posted improved profits in 1994, with particularly favourable results from commercial construction.

Stuart Olson Construction Ltd. completed the President Plaza in Richmond, B.C. in 1994. This impressive, mixed-use project was featured on the cover of the anniversary issue of the influential Hong Kong Building Review. Gardenia Villa, a 250 unit Vancouver condominium project was also completed during the year. Stuart Olson has been involved in constructing an increasing number of retail retrofits, institutional buildings and light industrial facilities across western Canada.

Triton Projects Inc. continues to be profitable in the competitive oil field mechanical construction market. All of Triton's projects in 1994 were completed on schedule, within budget, and without a lost time accident.

During 1994, Insulation Holdings Inc. substantially reduced its inventory of insulation products by ceasing the distribution of materials to third parties. This decision will have a positive impact on both capital employed and profitability. Reduced work availability in Alberta resulted in a disappointing year for this insulating and asbestos removal contractor, but percentage margins improved and prospects are better for 1995.

Significant progress was made in 1994 in positioning Churchill's remaining commercial real estate for profitable disposition. During the year, both the Strathcona Plaza and Fairwood On 7th service centres in Edmonton attracted new tenants and are now substantially leased. Real estate sales in 1994 were at prices which support the book values established in 1993.

Management is pleased to report progress in the Corporation's program to stabilize, restructure and achieve recovery. While the existing program of reducing debt and improving the performance of the core construction businesses will continue, Churchill's strategic thrust will now enter a more expansionary phase. Opportunities will be sought to grow the core construction businesses through alliances and the expansion of the Corporation's activities in its traditional markets. Churchill is quickly evolving from being a real estate conglomerate with investments in a variety of businesses into a broadly based construction organization. When the transition is complete, the Corporation will enjoy a significant presence in the commercial and industrial construction business in North America.

In 1994, with the support of its major stakeholders, Churchill extended the repayment terms of a portion of its debt and significantly improved the Corporation's capital structure. A $2.65 million debt, which had been due in 1994, was renegotiated to a long term instrument at favourable terms. As part of a restructuring agreement with the preferred shareholders, Churchill redeemed $1.67 million of first preferred shares, with the entire proceeds being reinvested in common shares at 20¢ per share. The preferred shareholders have also deferred redemption of their shares, which were to have been redeemed commencing in 1992, for at least five years. The agreement also makes future redemptions contingent on Churchill's profitability and provides for dividend accruals to cease on September 20, 1995.

"...a significant restructuring of the Corporation's capital was successfully completed."

In the opinion of the Board of Directors, the removal of the future dividend burden and the deferral of preferred share redemption obligations will have a positive impact on common share value and the Corporation's ability to attract capital. As part of the restructuring agreement, the Board of Directors are presenting a special resolution to the shareholders to reduce the stated capital account of the Class A common shares of Churchill to facilitate the timely payment of preferred share obligations.

The Board of Directors has accepted with regret the decision of Mr. Oleh Hnatiuk not to stand for a further term as director of Churchill. We would like to thank Mr. Hnatiuk for his dedication and valuable contribution as a director of our Corporation.

The Board of Directors and management would like to express their sincere appreciation to all Churchill's clients and to the dedicated, hard working employees in our group of companies. Without their contribution and confidence, the progress achieved to date would not have been possible. We look forward to fulfilling the promise of Churchill's future.

H.R. (Hank) Reid
President and C.E.O.

Stanton K. Hooper
Chairman

Management Discussion and Analysis

Over the past few years The Churchill Corporation has changed its focus from a holding company to an operating construction company with a number of non-core holdings being divested. As indicated in Note 19 to the financial statements, the Corporation's construction interests provide over 99% of revenues. Management expects the construction industry to improve, along with the economy, over the next three to five years.

Operating Results

Revenue for 1994 is $49,119,000 lower than 1993, reflecting the reduced available market. Efforts to focus on market segments best able to provide higher returns resulted in a gross margin of 8.2% for 1994 compared to 7.9% in 1993.

Other income of $900,000 is $662,000 below last year, due primarily to the 1993 gain of $750,000 from an affiliate selling most of its assets. A similar gain of $157,000 was recognized in 1994 but we do not expect significant gains from this affiliate in the future. Investments in other affiliates provided aggregate earnings of $112,000 (1993 : $210,000) which will diminish in future as these non-core assets are divested.

Indirect and administrative expenses show an improvement of $3,363,000 from 1993 because of the strategic decisions to downsize our operations to match the decreased available markets.

"Management expects the construction industry to improve ...over the next three to five years."

The 1993 costs include $1,440,000 specifically relating to this strategic restructuring.

Interest expense has been reduced by $296,000 as a result of paying down the Corporation's interest-bearing debt. This improvement would have been greater but for the increased interest rates experienced in the latter part of the year.

In 1993 the Corporation recorded asset revaluation charges totalling $4,248,000 and reported a loss of $998,000 incurred by a discontinued operation. No such charges were recorded in 1994. Divestitures effected during the year have been at values which substantiate the revaluation done last year.

The factors discussed above result in net earnings of $227,000 in 1994, a marked improvement over the loss of $5,328,000 reported last year.

Liquidity

Throughout the year, Churchill maintained a high degree of liquidity with adequate working capital to fund the Corporation's activities. At year-end, working capital was $6,495,000 compared to $5,915,000 in 1993.

Corporate Investments

Corporate investments consist of equity interests in operating companies and the Corporation's oil and gas interests. The Corporation's aggregate investment position was reduced by $1,609,000 during the year from redemption of preferred shares and cash distributions from an affiliate offset by increases associated with net current earnings.

All corporate investments are classified as non-core assets and are being divested as opportunities arise. Proceeds from divestitures will be used to improve liquidity by reducing bank indebtedness.

Property and Equipment

The Corporation's investment in property and equipment is primarily the

construction assets utilized by its operating subsidiaries. Through the downsizing program effected in 1993, certain of these assets became surplus and were sold in 1994. The most significant disposal, an office building located in Calgary, was sold at a gain. Further dispositions of real property are anticipated for 1995 and these are also expected to realize gains.

Long-Term Debt

There was no new long-term debt issued during the year. Repayments of $2,503,000 are $1,436,000 greater than anticipated because, in addition to regular monthly repayments, debt secured by the real property sold during the year was retired.

During the year the Corporation negotiated new terms for a $2,650,000 note payable. The new terms provide a lower interest rate and limit payments of interest and principal to a maximum of 25% of annual earnings through to 1998 with the remaining principal due June 30, 1999.

Share Capital

By agreement between the Corporation and its preferred shareholders, 1,670,931 Series A first preferred shares were redeemed for $1,670,931 and the redemption proceeds were reinvested in 8,354,655 common shares, issued from treasury, at 20¢ per share. To effect the redemption, the preferred shareholders waived cumulative dividends in arrears on the redeemed shares in the amount of $534,699.

"Indirect and administrative expenses show an improvement of $3,363,000..."

The preferred shareholders also agreed to waive their rights to future preferred share dividends from September 20, 1995 on the remaining Series A first preferred shares and from June 30, 1994 on the Series A second preferred shares. The agreement also changed the redemption terms for both the first and second preferred shares so payments will be limited to 25% of annual earnings to be applied firstly to the cumulative dividends in arrears and secondly to share redemptions, commencing fiscal year 1999.

The effective conversion of 14.5% of preferred share capital has a dilutive effect on the common shares. However, the cessation of cumulative preferred share dividends into the future will enhance the Corporation's ability to discharge its preferred share obligations and, after September 20, 1995, all earnings will accrue to the benefit of the common shareholders. Furthermore, the revised payment terms will allow the Corporation to retain a portion of its future cash flow for use in its ongoing operations.

Management considers this share capital restructuring to be a significant event that provides immediate benefit to the common shareholders.

Management's Report

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgement. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has discussed the financial statements, including the notes thereto, with management and external auditors.

H.R. (Hank) Reid
President and Chief Executive Officer

T.B. Dunnigan

Terrance B. Dunnigan, C. A.
Vice President Finance

Auditors' Report

To the Shareholders of The Churchill Corporation

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 1994 and 1993 and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Edmonton, Alberta
March 10, 1995

Consolidated Balance Sheets

December 31, 1994

	(in thousands)	1994	1993
ASSETS	Current Assets		
	Cash and Term Deposits (Note 3)	$ 13,365	$ 8,746
	Accounts Receivable	29,231	40,384
	Inventories and Prepaid Expenses	2,014	4,591
	Properties for Sale (Note 4)	4,859	5,753
	Current Portion of Agreements Receivable (Note 5)	113	252
		49,582	59,726
	Agreements Receivable and Other (Note 5)	2,938	3,034
	Corporate Investments (Note 6)	3,474	5,083
	Property and Equipment (Note 7)	3,988	5,057
	Goodwill	404	435
		$ 60,386	$ 73,335
LIABILITIES	Current Liabilities		
	Bank Indebtedness (Note 8)	$ 12,920	$ 13,801
	Accounts Payable	21,878	31,758
	Contract Advances and Unearned Income	6,493	6,012
	Deferred Income Taxes (Note 9)	801	1,173
	Current Portion of Long-Term Debt (Note 10)	995	1,067
		43,087	53,811
	Long-Term Debt (Note 10)	7,665	10,096
	Deferred Income Taxes (Note 9)	68	51
	Minority Interest	1,062	1,100
		51,882	65,058
	Contingencies and Commitments (Notes 16 and 17)		
SHAREHOLDERS' EQUITY	Shareholders' Equity (Note 11)	8,504	8,277
		$ 60,386	$ 73,335

Approved by the Board:

R.R. Reid — Director

Director

Consolidated Statements of Earnings

Year Ended December 31, 1994

(in thousands)		1994		1993
Revenue	$	**145,764**	$	194,883
Direct Costs		**134,692**		180,536
		11,072		14,347
Other Income (Note 12)		**900**		1,562
		11,972		15,909
Indirect and Administrative Expenses (Note 13)		**10,015**		13,378
Depreciation Expense		**676**		892
Earnings from Continuing Operations Before Undernoted Items		**1,281**		1,639
Interest Expense		**(1,323)**		(1,619)
Recovery of (Provision for) Income Taxes (Note 9)		**376**		(2)
Minority Interest		**(107)**		(100)
Asset Revaluation (Note 14)		**—**		(4,248)
Earnings (Loss) from Continuing Operations		**227**		(4,330)
Discontinued Operations (Note 2)		**—**		(998)
Net Earnings (Loss)	**$**	**227**	$	(5,328)
Basic and Fully Diluted Earnings (Loss) Per Common Share				
Continuing Operations	**$**	**.01**	$	(.56)
Net Earnings (Loss)	**$**	**.01**	$	(.67)

Basic and fully diluted earnings (loss) per common share is calculated after deducting annual preferred dividends in arrears of $118,464 (1993: $920,000). The weighted average number of common shares outstanding during the year was 13,588,927 (1993: 9,327,265).

Consolidated Statements of Deficit

Year Ended December 31, 1994

(in thousands)		1994		1993
Deficit, Beginning of Year	$	**(25,171)**	$	(19,843)
Net Earnings (Loss)		**227**		(5,328)
Deficit, End of Year	**$**	**(24,944)**	$	(25,171)

Consolidated Statements of Changes in Financial Position

Year Ended December 31, 1994

	(in thousands)	1994	1993
OPERATING ACTIVITIES	Earnings (loss) from continuing operations	$ 227	$ (4,330)
	Add (deduct) non-cash items		
	Net equity profit	(119)	(806)
	Depreciation, depletion and goodwill amortization	786	1,049
	Gain on sale of assets	(185)	(194)
	Asset revaluation	—	4,248
		709	(33)
	Change in minority interest	(38)	133
	Net change in accounts receivable, inventories and prepaid expenses	13,730	(6,690)
	Net change in accounts payable, contract advances and unearned income	(9,399)	1,544
	Change in deferred income taxes	(355)	59
	Cash provided by (used in) continuing operations	4,647	(4,987)
	Cash provided by discontinued operations	—	666
		4,647	(4,321)
INVESTING ACTIVITIES	Proceeds on sale of assets	2,019	1,325
	Proceeds from corporate investments	1,649	2,859
	Principal payments of agreements receivable	235	91
	Advances on agreements receivable	—	(628)
	Additions to assets	(547)	(509)
	Other	—	76
	Cash provided by investing activities	3,356	3,214
	Cash provided by discontinued investing activities	—	776
		3,356	3,990
FINANCING ACTIVITIES	Decrease in bank indebtedness	(881)	(2,742)
	Issuance of long-term debt	—	4,150
	Long-term debt repayment	(2,503)	(2,327)
	Issuance of common shares	1,671	—
	Redemption of preferred shares	(1,671)	—
	Cash used in financing activities	(3,384)	(919)
	Cash used in discontinued financing activities	—	(1,242)
		(3,384)	(2,161)
	Increase (Decrease) in Cash	4,619	(2,492)
	Cash, Beginning of Year	8,746	11,238
	Cash, End of Year	$ 13,365	$ 8,746

Notes to the Consolidated Financial Statements

December 31, 1994

1. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries and limited partnership:

Stuart Olson Construction Corporation (100%)
Stuart Olson Construction Ltd. (100%)
Insulation Holdings Inc. (80%)
Triton Construction Inc. (80%)
Triton Projects Limited Partnership (80%)
Churchill Resource Investments Inc. (100%)
Northern Insulation Contracting Inc. (100%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Corporate Investments

Corporate investments include equity interests in operating companies. These interests, where the Corporation has significant influence, are accounted for on the equity basis. Where the investee's year end precedes December 31, the Corporation's share of earnings is determined up to the investee's year end, adjusted for the impact of any significant subsequent results.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value.

Leasing costs on commercial properties are capitalized and amortized over the lease period.

Carrying costs, including property taxes, interest on debt and administration expenses are capitalized on undeveloped land for sale only if the resultant carrying value does not exceed estimated net realizable value.

Income from the sale of properties is recognized when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Development properties are depreciated on a 5% sinking fund basis over 40 years.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 7.

Contract Income

Revenue from construction contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

Goodwill

Goodwill is calculated as the excess purchase price paid on the acquisition of subsidiary and affiliated companies over the value assigned to identifiable net assets acquired and is amortized on a straight-line basis over periods not exceeding 20 years.

2. Discontinued Operations

On November 1, 1993, the Corporation sold its wholly-owned subsidiary, Maran Equipment Ltd., which represented the Corporation's equipment sales and service segment. The loss for this segment to October 31, 1993 is included in the 1993 comparative financial statements as a discontinued operation.

3. Cash and Term Deposits

Cash includes $10,569,747 (1993: $7,589,685) the use of which is restricted to the payment of direct costs related to specific construction projects.

4. Properties for Sale
(in thousands)

	1994 Net Book Value	1993 Net Book Value
Developed properties	$ **6,672**	$ 7,056
Undeveloped land	**3,251**	4,258
	9,923	11,314
Cumulative valuation adjustments	**(5,064)**	(5,561)
	$ **4,859**	$ 5,753

Developed properties are net of accumulated depreciation of $631,610 (1993: $428,029).

5. Agreements Receivable and Other
(in thousands)

	1994	1993
Agreement receivable	$ **4,688**	$ 4,688
Term deposit	**500**	500
Mortgages and notes receivable		
Non-interest bearing	**85**	86
Interest at 6% to 9%	**162**	291
Interest at 9.25% to 12%	**314**	420
Allowance for doubtful accounts	**(2,698)**	(2,699)
	3,051	3,286
Less current portion	**(113)**	(252)
	$ **2,938**	$ 3,034

The agreement receivable is repayable from future cash flow of the debtor with the first payment expected in 2005. The advances bear interest at Prime + 2%, however, due to the uncertainty of collecting the interest the Corporation has not recognized this income for 1993 and 1994. The $500,000 term deposit is pledged as security for other obligations of the debtor.

6. Corporate Investments
(in thousands)

	1994	1993
Equity investments		
Preferred shares - up to 9% dividend rates	$ **648**	$ 948
Net equity	**2,019**	3,332
	2,667	4,280
Oil and gas interests, net of accumulated depletion of $548,031 (1993: $500,108)	**807**	803
	$ **3,474**	$ 5,083

Unamortized goodwill included in equity investments is $371,174 (1993: $401,166). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been reflected in income, are $222,325 (1993: $216,175).

7. Property and Equipment
(in thousands)

	1994			1993	
	Cost	**Accumulated Depreciation**	**Net Book Value**	Net Book Value	Depreciation Rates
Plant, equipment and furnishings	**$ 6,822**	**$ 5,154**	**$ 1,668**	$ 2,168	10% - 33⅓%
Buildings and improvements	**2,420**	**971**	**1,449**	1,863	4% - 25%
Land	**871**	**—**	**871**	1,026	
	$ 10,113	**$ 6,125**	**$ 3,988**	$ 5,057	

8. Bank Indebtedness

Bank indebtedness is secured by floating charge debentures, general assignments of book debts and by the pledging of specific assets.

9. Income Taxes
(in thousands)

	1994	1993
The income tax recovery (provision) consists of:		
Current recovery (provision)	**$ 21**	$ (82)
Deferred recovery	**355**	80
	$ 376	$ (2)

The consolidated group's effective tax rate approximates 45%. However, due to the utilization of previously unrecognized tax losses carried forward and losses in subsidiaries used to reduce deferred income taxes payable, the provision for income taxes does not reflect the effective rate.

Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $9,600,000 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

1997	$ 3,500
1998	600
1999	1,700
2000	3,300
2001	500

These financial statements have recognized $2,100,000 of the above tax losses carried forward through the reduction of deferred income tax liability.

The consolidated group also has accumulated net-capital losses for income tax purposes of $6,400,000 which may be carried forward indefinitely to reduce taxable capital gains in future years.

10. Long-Term Debt
(in thousands)

	1994	1993
Demand bank loans (Prime + 1.25% to Prime + 1.75%)	$ 4,481	$ 5,917
Mortgages (Prime + 0.5% to 10.875%)	859	1,894
Agreements payable (Prime + 1.25%)	—	17
Promissory note	2,650	2,650
Unsecured loan	670	685
	8,660	11,163
Less current portion	(995)	(1,067)
	$ 7,665	$ 10,096

Demand bank loans, with scheduled repayments to February, 2004, are secured by floating charge debentures, assignments of book debts, and pledging of specific assets.

Mortgages, maturing in 1997 and 1998, are secured by charges against specific properties.

The promissory note is unsecured and bore interest at 11% to June 30, 1994 (1993: 10%). The adjusted note agreement, effective July 1, 1994, sets out scheduled annual repayments to 1999 with an interest rate of 5% per annum. The actual repayments and the interest charged may be reduced depending on the Corporation's annual net income after tax. These amounts are due April 30th after the fiscal year end. Any difference between the interest charged and the 5% maximum is forgiven and any difference between the principal paid and the scheduled repayment is deferred until June 30, 1999. Based on the Corporation's 1994 earnings, no principal amounts are owing April 30, 1995 and the interest charged for the period July 1, 1994 to December 31, 1994 was $32,379. The remaining annual principal payments are now scheduled to be $530,000 on April 30, 1996 to 1999 plus a final payment of $530,000 on June 30, 1999.

The unsecured loan is payable in quarterly instalments of $66,500 in 1995 and $99,750 in 1996 plus a final payment of $87,200 on December 31, 1996. The loan is non-interest bearing and the required payments have been discounted at 9% to reflect the present value of the instalments due.

Interest cost on long-term debt during the year was $645,082 (1993: $656,815).

Estimated principal amounts due in each of the next five years, assuming the promissory note repayment is as scheduled and assuming the mortgages are renewed on similar terms and conditions, are as follows:

1995	$ 995
1996	1,621
1997	1,164
1998	1,080
1999	1,494

11. Shareholders' Equity

(in thousands)

	1994	1993
Share capital	$ 33,448	$ 33,448
Deficit	(24,944)	(25,171)
	$ 8,504	$ 8,277

Share capital

Authorized

10,000,000	First preferred shares issuable in series with rights set by the directors
10,000,000	Second preferred shares issuable in series with rights set by the directors
110,000,000	Class A common shares

Issued

1994	Shares	Share Capital	Contributed Surplus	Total
Series A first preferred				
Issued, beginning of year	6,500,000	$ 6,500	$ —	$ 6,500
Less: redeemed	(1,670,931)	(1,671)	—	(1,671)
Issued, end of year	4,829,069	4,829	—	4,829
Series A second preferred	1,923,077	5,000	—	5,000
Total preferred		9,829	—	9,829
Class A common				
Issued, beginning of year	9,377,265	13,716	8,232	21,948
Add: issued from treasury	8,354,655	1,671	—	1,671
Issued, end of year	17,731,920	15,387	8,232	23,619
		$ 25,216	$ 8,232	$ 33,448

1993	Shares	Share Capital	Contributed Surplus	Total
Series A first preferred	6,500,000	$ 6,500	$ —	$ 6,500
Series A second preferred	1,923,077	5,000	—	5,000
Total preferred		11,500	—	11,500
Class A common	9,377,265	13,716	8,232	21,948
		$ 25,216	$ 8,232	$ 33,448

11. Shareholders' Equity
(continued)

Options and Conversion Rights

Rights to acquire 1,923,077 (1993: 1,923,077) Class A common shares at $2.60 (1993: $2.60) are outstanding and exercisable January 1, 1995 through to December 31, 1997.

The option to purchase up to 200,000 Class A common shares, outstanding at December 31, 1993, was cancelled during the year. The Corporation granted its senior employees and directors options to purchase up to 520,000 Class A common shares at $0.10 which expire July 15, 1999.

Share Capital Restructuring

Effective June 30, 1994, the Corporation redeemed 1,670,931 Series A first preferred shares for $1,670,931 and issued 8,354,655 common shares at $0.20 per share for a total of $1,670,931.
To effect the redemption, the preferred shareholders waived cumulative dividends in arrears on the redeemed shares in the amount of $534,699.

Preferred Shares

The Series A 8% cumulative first preferred shares are redeemable at $1.00 per share and the Series A 8% second preferred shares are redeemable at $2.60 per share. As part of the restructuring described above the preferred shareholders agreed to waive the right to future dividends for the first and second preferred shares accruing after September 20, 1995 and June 30, 1994 respectively. In addition, it was agreed that payment of cumulative dividends in arrears and subsequent redemptions of preferred shares will be based on annual earnings and, in any event, deferred until the promissory note is repaid in full (Note 10).

The fixed cumulative dividends on first preferred shares remain unpaid for the period July 1, 1990 to December 31, 1994 and on second preferred shares for the period July 1, 1990 to June 30, 1994 and total $3,338,464 (1993: $3,220,000). The Articles of the Corporation provide that, in the event dividends on preferred shares remain unpaid for any reason for two calendar years, such preferred shares become voting shares on the basis of one vote per share and such shares continue to have voting rights attached until all dividends have been paid. All the preferred shares are held by two shareholders and are now voting shares.

12. Other Income
(in thousands)

	1994	1993
Other income consists of:		
Interest income	$ **123**	$ 155
Equity profit	**119**	806
Dividends	**60**	82
Amortization of affiliates' goodwill	**(30)**	(33)
Oil and gas	**—**	117
Management fees	**121**	95
Sundry	**507**	340
	$ **900**	$ 1,562

Included in equity profit for 1994 is $157,505 (1993: $750,000) relating to an affiliate's gain from selling substantially all of its assets.

13. Restructuring Costs

Included in indirect and administrative expenses for 1993 is $1,440,000 related to restructuring costs of a subsidiary in the construction business.

14. Asset Revaluation
(in thousands)

Asset revaluation for 1993 consists of:

Writedown of properties for sale	$	1,306
Writedown of corporate investments		705
Writedown of agreements receivable		2,232
Other		5
	$	4,248

15. Related Party Transactions
(in thousands)

	1994	1993
The following balances were outstanding or transactions occurred with affiliated companies:		
Accounts receivable	**$ 167**	$ 150
Management and advisory fees income	**$ 121**	$ 102

These related-party transactions are in the normal course of business on terms similar to transactions with non-related parties.

16. Contingencies

(a) Subsidiaries of the Corporation have outstanding claims of approximately $1,100,000 for work completed in 1992 and 1993 beyond the original scope of the related contracts. As management is currently unable to estimate the outcome of these claims, actual proceeds less realization costs will be taken into income when settlements occur.

(b) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts and for obligations of an associate in an unincorporated joint venture.

(c) The Corporation and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in income as the matters are resolved.

17. Commitments
(in thousands)

The Corporation and its subsidiaries lease certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1995	$ 724
1996	632
1997	530
1998	381
1999	364

18. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

19. Segmented Information
(in thousands)

	1994			
	Construction	Equity Investments	Other	Consolidated
Revenue	$ 145,346	$ —	$ 418	$ 145,764
Direct Costs	134,403	—	289	134,692
	10,943	—	129	11,072
Other Income	265	270	365	900
	11,208	270	494	11,972
Indirect and Administrative	8,581	—	1,434	10,015
Depreciation	511	—	165	676
Earnings (Loss) Before Undernoted Items	$ 2,116	$ 270	$ (1,105)	1,281
Interest				(1,323)
Recovery of Income Taxes				376
Minority Interest				(107)
Net Earnings				$ 227
Identifiable Assets	$ 47,220	$ 2,667	$ 10,499	$ 60,386
Capital Expenditures	$ 116	$ —	$ 431	$ 547

	1993			
	Construction	Equity Investments	Other	Consolidated
Revenue	$ 194,371	$ —	$ 512	$ 194,883
Direct Costs	180,253	—	283	180,536
	14,118	—	229	14,347
Other Income	—	855	707	1,562
	14,118	855	936	15,909
Indirect and Administrative (Note 13)	11,947	—	1,431	13,378
Depreciation	737	—	155	892
Earnings (Loss) Before Undernoted Items	$ 1,434	$ 855	$ (650)	1,639
Interest				(1,619)
Provision for Income Taxes				(2)
Minority Interest				(100)
Asset Revaluation				(4,248)
Discontinued Operations				(998)
Net Loss				$ (5,328)
Identifiable Assets	$ 56,053	$ 4,280	$ 13,002	$ 73,335
Capital Expenditures	$ 461	$ —	$ 48	$ 509

Corporate Directory

Board of Directors

Peter F. Adams

Robert G. Brawn

Oleh S. Hnatiuk*

Stanton K. Hooper

Donald E. Johnson

William R. McKenzie

Henry R. Reid

Brian W. L. Tod, Q.C.

*Not standing for re-election

Officers

S. K. Hooper
Chairman

H. R. Reid
President and
Chief Executive Officer

L. A. Patrick
Vice President and
Corporate Counsel and
Corporate Secretary

T. B. Dunnigan, C.A.
Vice President Finance

Annual General Meeting

The Special and Annual General Meeting of Shareholders will be held at 9:00 a.m., May 17, 1995
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

Legal Counsel

Cook Duke Cox

Milner Fenerty

Ogilvie & Company

Auditors

Deloitte & Touche

Transfer Agent

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
CALGARY, Alberta
T2P 2Z1

Bankers

Alberta Treasury Branches

Barclays Bank of Canada

Exchange Listing

Alberta Stock Exchange
Trading Symbol: "CUQ"

Executive Offices

Suite 2280 Manulife Place
10180 - 101st Street
EDMONTON, Alberta
T5J 3S4
Telephone: (403) 424-8230
Telecopier: (403) 425-6822

April 12, 1995

Churchill

The Churchill Corporation

Suite 2280 Manulife Place
10180 - 101st Street
EDMONTON, Alberta T5J 3S4
Telephone: (403) 424-8230
Telecopier: (403) 425-6822

Printed in Canada